



MONTHLY PROGRESS REPORT FOR THE TAX MODERNIZATION PROJECT NOVEMBER 2005

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1. Introduction

This progress report covers TAMP II activities during the month of November 2005. This is the fifteenth progress report since USAID extended the TAMP-DAI contract on August 23, 2004. The extension period covers September 2004 to June 19, 2006.

These activities are presented in parallel format to the recently submitted revised project workplan. The report first presents highlights of TAMP working during the month. It then reports work progress in the comments column of the tax policy and tax administration work schedules..

2. Highlights

3. Policy

3.1. TAMP work to support attaining immediate term policy targets

Some of TAMP's work is on an intermittent or continual but non-specific type, providing support to counterparts in each jurisdiction as they require to be able to fine tune, hone, and support their policy reform proposals. This includes preparing our counterparts in the Ministries of Finance or the Brcko Revenue Agency to hold reasoned discussions on the topics related to the above policy targets. TAMP staff members will also continue to participate in presentations and public discussions, at the request of our counterparts (such as meetings with parliamentarians, business persons, and chambers of commerce).

Our work in this area includes: applications of the revenue scenario builder models that TAMP built earlier in the year, continued training for our counterparts, preparation of briefing notes, work with the IC to ensure an informed, informative and targeted campaign to support reform, and preparation of other informative materials.

The work in this area will be led be carried out by Rajko Tomas, Pero Bosnic, Dzelila Sahinagic, and Sandra Marjanovic.

The following table includes specific work or support activities that are or will be carried out by TAMP in support of the immediate policy targets.

Table 1: Supporting Immediate Policy Targets

Work	Persons responsible	Timeframe	Comments
1. Assist FMoF's Fiscal Policy Sector	Bosnic and Sahinagic	To end 2005	Gallagher, Bosnic and Sahinagic participated in conferences with

Work	Persons responsible	Timeframe	Comments
in materials preparations and Q&As regarding personal income tax			FMoF in Sarajevo and Mostar, under Chamber of Commerce auspices, and in Zenica, Cantonal Govt auspices.
2. Assist RSMoF and TARS in materials preparation and Q&As regarding personal income tax	Tomas and Marjanovic	To end 2005	Team preparing new revenue projections based on revised PIT draft.
3. Dialogue with FMoF senior counterparts	Gallagher	Ongoing	Meet every week
4. Dialogue with RSMoF senior counterparts	Gallagher	Ongoing	Gallagher and Tomas met with RS working group to discuss redoing the PIT draft. Team prepared new PIT proposal
5. Assist FMoF's Fiscal Policy Sector in materials preparations and Q&As regarding corporate income tax	Bosnic and Sahinagic	To end 2005	Team provided inputs to FMoF for preparation of presentations, created entrepreneurs' scenario under PIT, made materials re income distribution before and after taxes.
6. Training in Tax Policy III in Brcko	Bosnic and Sahinagic	Oct 2005	Training completed in Brcko in October.
7. Training in Tax Policy III in RS	Tomas and Marjanovic	Nov 2005	Training compled in Banja Luka in November.
8. Training in Tax Policy III in Federation	Bosnic and Sahinagic	Jan 2006	
9. Direct Tax Commission coordination	Gallagher, Bosnic, Sahinagic	At least monthly to end of project	No meeting in November, next meeting scheduled for Dec. 5'05
10. Provide support to USEmbassy in its policy dialogue regarding personal income tax in Federation	Gallagher, Bosnic, Sahinagic	To end of 2005	Provided analysis of treatment of individuals (single and with dependency scenarios).
11. Provide support to USEmbassy and	Gallagher, Bosnic,	To end of 2005	Gallagher worked closely with OHR and UST on encouraging

Work	Persons responsible	Timeframe	Comments
OHR in policy dialogue re corporate income tax in BiH	Sahinagic, Tomas, Marjanovic		counterparts to bring CIT and PIT laws to procedure, also on issue of miscalculation of revenue shares from single account
12. Provide support to USEmbassy in its policy dialogue re personal income tax in RS	Gallagher, Tomas, Marjanovic	Nov and Dec 2005	--
13. Review of Brcko comprehensive income tax law and make recommendations for its harmonization with Entity laws	Tomas	Jan – Feb 2006	
14. Hold workshop in Brcko on income tax harmonization	Tomas	Mar 2006	
15. Provide assistance in drafting legislation to amend Brcko's current income tax law	Tomas	Mar 2006	
16. Provide support to Brcko District in the legislative process for the income tax amending legislation	Tomas	Mar – Apr 2006	
17. Assist Brcko to amend its BoR for the income tax law changes	Tomas	Apr 2006	
18. Continual review and revision of proposed property tax legislation in Brcko	Tomas and Gallagher	Nov 05 – Mar 06	No changes expected until after further public meetings.
19. Participate in	Gallagher,	Nov 05 –	None in November

Work	Persons responsible	Timeframe	Comments
public hearings and events regarding Brcko property tax	Tomas, and Marjanovic	Mar 06	
20. Finalize Computer Assisted Mass Appraisal system for Brcko property tax	Gallagher and Tomas	Dec 2005	In final edits. Being translated.
21. Draft BoR for Brcko property tax	Gallagher, Tomas, review and input from Greer	Apr 06	

3.2. TAMP work to support longer-term policy targets

TAMP staff will undertake a variety of activities that will help to put these longer-term targets onto the agenda of policy makers in BiH and the International Community. This work is critical to continuing BiH on the proper pathway to reform of its direct tax system and it is consistent with the current TAMP scope of work. Due to resource constraints as well as time constraints, TAMP activities will merely help to set the stage for these longer-term policy reform targets, but attaining these targets will need to be addressed by USAID's new tax reform activity and others.

TAMP's responsibility in the area of longer-term policy reform is to prepare a set of useful deliverables, not the actual attainment of the reforms themselves. TAMP staff, because of the very nature of the work that we are currently undertaking and because of the very high degree of credibility we have with our counterparts and the IC, is uniquely positioned to complete these technical studies. This work is not only consistent with the current SOW, but also with the work funded by USAID in January – February 2004 on Creating an SME Friendly Revenue System.

Today, the public pension system, which is financed entirely by payroll taxes on workers, can be represented by "too many, paying too much, for too few, receiving too little." Pension and other contributions are the single greatest direct tax revenue. Our work will analyze the current situation, make some projections, and provide some directions for future corrections. At this writing, we have already prepared initial analyses.

The development of a direct taxes and fees law (DTL) has already been initiated under the current workplan. Indeed, a draft has already been submitted to and discussed with the Direct Tax Commission (DTC) and accepted by USAID as a deliverable. The DTC and USAID had accepted TAMP's recommendation that this DTL be postponed for

counterpart consideration until after the new year (2006) since too many reforms are currently on the policy agenda for 2005.

Although the proposed new personal income tax eliminates about 70 other taxes (seven, but in ten different cantons with differences in rates and application) there are still many that should be removed. Some of these were itemized by the bulldozer committee, with TAMP input. The DTL will help to eliminate some of these, while also help to prevent the creation of new nuisance taxes and fees.

TAMP staff have been working intimately with TA counterparts for the past four years and under TAMP I even made a recommendation for creating a single Tax Authority. Only once the PIT and CIT laws have been enacted in the two Entities, would TAMP begin discussions of the précis. This précis will be a thoughtful, brief document, that will present a variety of options for organizing tax administration at the super-entity level. Implementation of any recommendations in the précis and even further discussions beyond USAID and the DTC would likely be carried out by the upcoming new tax reform activity.

Table 2: Supporting Longer-Term Policy Targets

Work	Persons responsible	Timeframe	Comments
1. Produce analysis of the pensions contributions system in BiH	Tomas, Bosnic, Sahinagic, and Marjanovic	Nov 05 - Jan 2006	Initial analysis for RS completed; work begun in Federation
2. Discuss draft legislation on direct taxes and fees (DTL) in Federation with DTC	Gallagher	Jan 2006	
3. Discuss DTL with counterparts in Federation	Gallagher and Bosnic	Jan 2006	
4. Develop proposals for further elimination and simplification of taxes and fees in RS	Tomas	Jan 2006	
5. Discuss RS tax simplification and elimination proposals with DTC	Gallagher and Tomas	Feb 2006	
6. Discuss RS tax simplification and elimination proposals with RS counterparts	Tomas	Mar 2006	
7. Develop précis on possible model for	Greer and Gallagher	Apr 2006	

Work	Persons responsible	Timeframe	Comments
moving all personal and corporate income tax administration to super entity level			
8. Discuss précis on moving tax administration to super entity level with DTC	Greer and Gallagher	Apr 2006	
9. Report to DTC progress in property taxation in Brcko and lessons for extension to rest of BIH	Gallagher	Apr 2006	
10. Develop system for merging disparate data sources for Brcko property tax mass appraisal CAMA	Nihad Zivojevic	Apr – May 06	
11. Hold seminars for application of the CAMA in Brcko	Gallagher, Tomas, Zivojevic	Apr – May 06	
12. Provide continuing support for property tax implementation in Brcko	Tomas, Zivojevic	Apr – May 06	

4. Tax Administration

4.1. TAMP work to support immediate-term targets

The following table includes specific work or support activities that are or will be carried out by TAMP in support of the immediate tax administration targets.

Table 3: Supporting Immediate Tax Administration Targets

Work	Persons responsible	Timeframe	Comments
1. Assist TARS Staff in developing Tax Declaration Forms and Instructions for Withholding	Drakulic, Zivojevic, Greer	Nov -Dec 05	Prototypes of application forms are made, testing and analysis is in progress. It will be presented to FMOF.
2. Assist FMOF & FTA Staff in developing Tax	Zivojevic, Greer,	Nov - Dec 05	Zivohevic participated with FMOF in review of

Work	Persons responsible	Timeframe	Comments
Declaration Forms and Instructions for Withholding	Zajmovic		proposed forms
3. Assist TARS in developing IT systems for processing new Withholding Declarations	Drakulic, Tomic, Zajmovic	Jan - Apr 06	
4. Assist FTA in developing IT systems for processing new Withholding Declarations	Vuleta, Zivojevic, Hasovic, Zajmovic	Jan - Apr 06	
5. Training of TARS Staff and assisting in development of materials for public education regarding Withholding	Tomas, Marjanovic	Ongoing	
6. Training of FTA Staff and assisting in development of materials for public education regarding Withholding	Bosnic, Sahinagic	Ongoing	
7. Assist RSMOF and TARS Staff in developing Tax Declaration Forms and Instructions for new PIT & CIT.	Drakulic, Zivojevic, Greer	Nov - Dec 05	
8. Assist FMOF and FTA Staffs in developing Tax Declaration Forms and Instructions for new PIT & CIT	Zivojevic, Greer	Nov - Dec 05	
9. Training of TARS Staff and assisting in development of materials for public education in support of the new PIT & CIT	Tomas, Marjanovic	Ongoing	
10. Training of FTA Staff and assisting in development of materials for public education in support of the new PIT & CIT	Bosnic, Sahinagic	Ongoing	
11. Assist FTA in developing	Vuleta,	Jan - Apr	

Work	Persons responsible	Timeframe	Comments
IT systems for processing the new PIT & CIT Declarations	Zivojevic, Hasovic, Zajmovic, Greer	06	
12. Training in FTA for managing the administrative aspects of a Tax Inspection (Tax Audit) program	Greer	Mar 06	
13. Assist TARS in developing administrative & IT programs to identify and track taxpayers to be considered for audit	Tomic, Drakulic, Zajmovic, Greer	Jan - Apr 06	
14. Assist TARS in developing enforced collection selection and case management.	Tomic, Drakulic, Zajmovic, Greer	Mar - Apr 06	
15. Assist FTA in transition of taxpayer accounts to new database	Vuleta, Hasovic, Zivojevic Zajmovic,	Jan 06	Taxpayers accounts are transferred for Čapljina, Čitluk, Ljubuški, Goražde, Novi Travnik, Donji Vakuf, Maglaj, Breza, Kakanj, Vitez and Olovo.
16. Assist in connecting FTA Offices that are planned for wireless network with backup communications alternatives	Culov, Fejzic	Mar 06	All TA offices planned for microwave connection are now online except four TA offices in Tuzla Canton
17. Assist in connecting the FTA offices that will not have wireless network availability with PTT or other service providers	Culov, Fejzic	Jan 06	TAMP is providing assistance to TA IT personnel in setting SnapGear and modems in order to connect the FTA offices on RAS server in TAPC.
18. Expand FTA CPC input from Branch Offices and enhance CPC operations	Vuleta, Hasovic, Zivojevic	Ongoing	To enhance CPC operations, citizens' data has been received from CIPS and will be imported in taxpayer registrar. Final testing of

Work	Persons responsible	Timeframe	Comments
			Linux version of application servers with implemented loadbalancing and fail-over is in progress. Engine and advanced calculator for interest is developed and implemented for TABD.
19. Assist all TA staffs in implementing and upgrading MW communications.	Culov, Fejzic	Ongoing	TAMP is assisting the FTA IT staff and CIPS representatives with their purchase of microwave devices for connection of an additional 15 TA FBiH offices with CIPS offices..
20. Assist FTA in changing existing TP registration to on-line registration.	Fejzic, Hasovic	Nov 05 - Apr 06	
21. Assist FTA in MIS	Vuleta, Zivojevic	Feb 06	
22. Assist FTA in testing and documenting all software in use that was developed by TAMP	Hasovic, Zajmovic, Vuleta	Ongoing	
23. Optimize all applications for FTA and TABD	Hasovic	Apr 06	
24. Prepare documentation for communications hardware and software.	Zajmovic, Culov, Fejzic	Apr 06	
25. Assist in adaptation to MS SQL of the TARS database.	Drakulic	Dec 05	
26. Redesign Taxpayer Card application.	Drakulic	Jan 06	
27. Assist in redesigning the application for Final Decision Letters.	Drakulic	Mar 06	
28. Improve system for tax accounting	Drakulic	Mar 06	

4.2. TAMP work to support longer-term targets

The following table includes specific work or support activities that will be carried out by TAMP in support of the longer-term tax administration targets.

Table 4: Supporting Longer-Term Tax Administration Targets

Work	Persons responsible	Timeframe	Comments
1. Assist TARS in developing IT systems for processing new Tax Cards for Individuals	Drakulic, Tomic	Apr 06	
2. Training regarding use of IT systems for Withholding Declarations in RS	Drakulic, Tomic	Apr 06	
3. Training regarding use of IT systems for Withholding Declarations in FTA	Zivojevic, Vuleta	Apr 06	
4. Training of FTA Staff and assisting in development of materials for public education in support of the new PIT & CIT	Bosnic, Sahinagic	Apr 06	
5. Assist BD Staff in developing Tax Declaration Forms and Instructions for new CIT and PIT, including Withholding	Zivojevic, Greer	Apr 06	
6. Assist TABD in developing Withholding application.	Zivojevic, Vuleta, Zajmovic	Apr 06	
7. Train TABD Staff and assist in development of materials for public education regarding CIT, PIT and Withholding	Tomas, Marjanovic	Apr 06	
13. Train in TARS, TABD, FTA on Tax Inspections and Indirect Methods for Determining Income	Greer, Rozner	Nov 05 - Apr 06	
14. Training in TARS, TABD, FTA on Inspections for Income	Greer, Rozner	Nov 05 - Apr 06	

Work	Persons responsible	Timeframe	Comments
Tax and Contributions Withholding			
15. Develop manuals and provide training in TARS, TABD, FTA for Tax Inspection Guidelines not covered by the specialized trainings on Withholding & Indirect Methods	Greer, Rozner	Nov 05 - Apr 06	
16. Assist TARS in developing administrative & IT programs to identify and track taxpayers to be considered for audit	Tomic, Drakulic, Zajmovic, Greer	Apr 06	
17. Design MIR tables and assist TARS in developing IT program for MIR on audit tracking and audit results	Greer, Zajmovic, Drakulic, Tomic	Apr 06	
18. Assist TARS in developing User manuals for Taxpayer identification, tracking, and audit results monitoring	Greer, Zajmovic, Drakulic, Tomic	Apr 06	
19. Provide training to the users of administrative & IT programs for tax audit	Drakulic, Tomic	Apr 06	
20. Assist FTA and TABD in developing audit selection systems	Hasovic, Vuleta, Zivojevic, Greer, Zajmovic	Apr 06	
21. Design MIR tables and assist FTA and TABD in developing IT program for MIR on audit tracking and audit results	Greer, Zajmovic, Vuleta, Hasovic, Zivojevic	Apr 06	
22. Assist FTA and TABD in developing user manuals in audit	Greer, Zajmovic, Rozner	Nov 05 - Apr 06	

Work	Persons responsible	Timeframe	Comments
management			
23. Train users of administrative & IT programs for tax audit	Vuleta, Hasovic, Zajmovic	Apr 06	
24. Assist TARS in developing MIR on enforced collection case tracking and results	Greer, Zajmovic, Tomic, Drakulic	Apr 06	
25. Assist TARS in developing User manuals for enforced collection	Drakulic, Tomic, Zajmovic	Apr 06	
26. Provide training to the users of administrative and IT programs for enforced collection (TARS)	Drakulic, Tomic	Apr 06	
27. Assist TARS in developing IT program for enforced collection selection and management	Tomic, Drakulic, Zajmovic, Greer	Apr 06	
28. Assist other TAs in developing IT program enforced collection selection and management	Zajmovic, Vuleta, Hasovic, Greer, Zivojevic	Apr 06	
29. Assist FTA and TABD in developing MIR reports on enforced collection case tracking and results	Greer, Zajmovic, Hasovic, Vuleta, Zivojevic	Apr 06	
30. Assist FTA and TABD in developing user manuals for enforced collection	Zajmovic, Greer	Apr 06	
31. Train in administrative and IT programs for enforced collection (FTA and TABD)	Vuleta, Zajmovic, Hasovic	Apr 06	
32. Expand FTA CPC inputs from Branch Offices and enhance CPC operations	Hasovic, Vuleta	Ongoing	

Work	Persons responsible	Timeframe	Comments
33. Advise network administrators in all TAs	Fejzic	Ongoing	
29. Assist TAs in developing MIS	Drakulic	Apr 06	
30. Establish working group of FTA, TARS, TABD, CIPS, ITA & Business Registration Project to establish programs and procedures for on-line taxpayer registration	Greer, Zajmovic, Drakulic	Mar 06	